

Message Text

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ACTION COME-00

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 EB-07 FRB-03

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CIEP-01 LAB-04 SIL-01 OMB-01 L-03 INT-05 /061 W

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R 221045Z JUL 75O

FM AMCONSUL KARACHI

TO SECSTATE WASHDC 9044

INFO AMEMBASSY ISLAMABAD

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E.O. 11652: N/A

TAGS: BEXP, PK

SUBJECT: MAJOR PROJECT: KARACHI STEEL MILL

REF: A. KARACHI A-66, JUNE 17, 1974 B. KARACHI 0506

C. STATE 158681

1. CONGENOFF HAS RECENTLY OBTAINED UPDATED INFORMATION ON STEEL MILL PROJECT FROM EXECUTIVES OF PAKISTAN STEEL MILLS CORPORATION (PSMC). HFIRM HAS ADOPTED FOLLOWING PURCHASE PROCEDURE: PSMC HAS BEEN PROVIDED WITH A LIST OF POTENTIAL THIRD COUNTRY SUPPLIERS BY ITS FRENCH CONSULTANT "SOFRESID"; LIST IS BEING EXPANDED BY PSMC TO INCLUDE OTHER FIRMS BELIEVED TO BE QUALIFIED. FIRMS ON LIST ARE BEING INVITED TO SUBMIT A TECHNICAL QUOTATION AGAINST DETAILED SPECIFICATIONS FOLLOWED BY SEPARATE COMMERCIAL QUOTATION. TECHNICAL QUOTATION IS BEING SENT TO SOFRESID WITH COPY TO PSMC AND THE COMMERCIAL QUOTATION ONLY TO PSMC. FINAL PURCHASE DECISIONS TO BE MADE BY PSMC. WE HAVE BEEN INFORMED THAT INVITATIONS TO QUOTE ON SLAB SCARFING MACHINE, OXYGEN PLANT, PICKLING LINE AND WATER FILTRATION SYSTEM WERE SENT OUT ON JULY 9. THE DETAILED TECHNICAL QUOTATIONS ARE DUE ON SEPT. 30 AND THE COMMERCIAL QUOTATIONS BY OCT. 30. INVITATIONS TO QUOTE FOR AIRCONDITIONING AND REFRIGERATION SYSTEM WILL FOLLOW SAME PROCEDURE BUT WILL BE SENT OUT SOMETIME IN FUTURE AFTER FINAL DESIGN WORK HAS BEEN

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COMPLETED.

2. AMERICAN FIRMS INVITED TO QUOTE FOR THE OXYGEN PLANT ARE AIR PRODUCTS, HYDROCARBON RESEARCH AND UNION CARBIDE. APPROXIMATELY 15 OTHER FOREIGN FIRMS ARE ON INVITATION LIST FOR OXYGEN PLANT. PURCHASE DECISION ON SUPPLY OF OXYGEN PLANT IS EXPECTED BY JANUARY, 1976. SUPPLIER WILL HAVE TWO YEARS TO MANUFACTURE AND DELIVER PLANT WHICH IS TARGETED FOR START-UP IN EARLY 1978. THE UPDATED FX COST ESTIMATE FOR OXYGEN PLANT IS APPROXIMATELY \$12-15 MILLION. PSMC SOURCE CLAIMS THAT ALTHOUGH SOFRESID WILL REVIEW TECHNICAL PROPOSALS FOR OXYGEN PLANT AND OTHER ITEMS, FINAL PURCHASE DECISION WILL BE COMPLETELY OBJECTIVE AND THAT DELIVERY TIME, PRICE AND QUALITY WILL BE KEY FACTORS IN PURCHASE DECISION. AVAILABILITY OF FINANCING. SOURCE CLAIMS THAT GOP HAS COMMITTED NECESSARY FOREIGN EXCHANGE FOR PURCHASE OF OXYGEN PLANT AND OTHER ITEMS.

3. INVITATIONS TO QUOTE ON SLAB SCARFING MACHINE ALSO SENT OUT JULY 9 TO SHORT LIST OF FIRMS INCLUDING UNION CARBIDE. PSMC SOURCE STATES THAT UNION CARBIDE HAS SHOWN INTEREST IN PROVIDING SLAB SCARFING MACHINE AND IS BEST QUALIFIED POTENTIAL SUPPLIER. FOREIGN EXCHANGE COST OF SLAB SCARFING MACHINE ALSO ESTIMATED AT APPROXIMATELY \$12-15 MILLION.

4. INVITATIONS TO QUOTE ON PICKLING LINE SENT TO SHORT LIST INCLUDING FOLLOWING THREE AMERICAN FIRMS: VEAN UNITED COMPANY, PRODUCTION MACHINE CORPORATION AND MESTA MACHINE CORPORATION AS WELL AS OTHER POSSIBLE SUPPLIERS FROM THIRD COUNTRIES. PSMC SOURCE NOT CERTAIN IF ANY OF THREE AMERICAN FIRMS INVITED TO QUOTE WILL BE INTERESTED BUT STATED THAT HE HOPED THAT VEAN UNITED WOULD QUOTE SINCE THEY ARE HIGHLY QUALIFIED. ESTIMATED FOREIGN EXCHANGE COST OF PICKLING LINE WILL BE \$5-7 MILLION.

5. INVITATIONS TO BID ON WATER FILTRATION SYSTEM SENT ON JULY 9 TO U.S. FIRMS, PERMUTIT AND GRAVER WATER CONDITIONING AS WELL AS OTHER POTENTIAL THIRD COUNTRY SUPPLIERS. ESTIMATED FOREIGN EXCHANGE COST OF FILTRATION SYSTEM IS \$1.4 MILLION.

6. OFFSITE FACILITIES, PRIMARILY DOCK SIDE UNLOADING SYSTEM AND CONVEYOR SYSTEM TO CARRY IRON AND COAL TO STEEL MILL BEING HANDLED BY DIFFERENT EXECUTIVE OF PSMC. CONSULTANT ON CONVEYOR LIMITED OFFICIAL USE

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SYSTEM IS LOCAL FIRM NESPAK IN ASSOCIATION WITH CANADIAN FIRM SWAN WOOSTER. FINAL INVITATION TO BID ON CONVEYOR SYSTEM IS EXPECTED TO BE SENT OUT APPROXIMATELY THE FIRST WEEK OF AUGUST TO LIST OF INTERESTED POTENTIAL SUPPLIERS. HPSMC SOLICITED EXPRESSIONS OF INTEREST ALMOST A YEAR AGO FROM 40 FOREIGN FIRMS INCLUDING 5 OR 6 FROM U.S. AT THAT TIME NONE OF THE AMERICAN FIRMS RESPONDED. SUBSEQUENTLY, HOWEVER, AMERICAN FIRM LINKBELT THROUGH ITS LOCAL AGENT EXPRESSED INTEREST AND WAS PREQUALIFIED. IN ADDITION, ROBINS

ENGINEERING AND CONSTRUCTORS MADE CONTACT WITH PSMC AND WAS PREQUALIFIED AS A RESULT OF PARTICIPATION IN THE RECENT DEPT OF COMMERCE PORT MACHINERY TRADE MISSION IN KARACHI. THUS, LINKBELT AND ROBINS ARE ONLY TWO AMERICAN FIRMS ON SHORT LIST OF 10 FIRMS WHICH WILL BE INVITED TO MAKE PROPOSAL FOR CONVEYOR SYSTEM.

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7. TO DATE NO FINAL DECISION HAS BEEN MADE ON CONTRACT FOR CONSTRUCTION MANAGEMENT FIRM TO ASSIST PSMC IN OVERSEEING IMPLEMENTATION OF PROJECT. DECISION HAS BEEN AT LEAST TEMPORARILY SHELVED OWING TO RELUCTANCE OF PSMC TO EXPEND FOREIGN EXCHANGE FOR SERVICES WHICH THEY ARE NOT CERTAIN ARE COMPLETELY NECESSARY.

8. ACCORDING PSMC SOURCE, QUALIFIED AMERICAN FIRMS HAVE SHOWN INTEREST IN BIDDING ON OXYGEN PLANT, SCARFING MACHINE AND CONVEYOR SYSTEM WHILE OTHER AMERICAN FIRMS HAVE BEEN INVITED TO BID ON PICKLING LINE AND FILTRATION SYSTEM AS ELABORATED ABOVE. PSMC CONTACT HAS STATED THAT IF AMERICAN FIRMS INVITED TO QUOTE ON PICKLING LINE AND FILTRATION SYSTEM ARE NOT INTERESTED, PSMC WOULD BE WILLING TO INVITE QUOTATIONS FROM OTHER QUALIFIED AMERICAN FIRMS. TIME, HOWEVER, IS SHORT AND THEREFORE INTERESTED AMERICAN FIRMS SHOULD CONTACT PSMC IMMEDIATELY TO EXPRESS INTEREST AND PROVIDE SUFFICIENT INFORMATION ON FIRM TO ALLOW PSMC TO EVALUATE ITS QUALIFICATIONS AS POTENTIAL SUPPLIER. IN VIEW OF THIS INFORMATION COMMERCE MAY WANT TO CONTACT VEAN UNITED, PRODUCTION MACHINE AND MESTA MACHINE (PICKLING LINE) AND PERMUTIT

AND GRAVER (FILTRATION SYSTEM) TO DETERMINE EXTENT OF INTEREST.
IF THEY NOT INTERESTED COMMERCE MAY WANT TO THEN ADVISE OTHER
QUALIFIED U.S. FIRMS.

9. FINANCING CONTINUES TO BE IMPORTANT FACTOR AND SUPPLIERS WHO
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OFFER FAVORABLE FINANCIAL TERMS AS PART OF BID PACKAGE WILL NO
DOUBT HAVE ADVANTAGE OVER THOSE OFFERS WHICH DO NOT INCLUDE
FINANCING. NONETHELESS, TOP PSMC EXECUTIVE RECENTLY STATED THAT
PROCUREMENT OF THESE ITEMS ABSOLUTELY ESSENTIAL AND THAT GOP WILL
HAVE TO MAKE FOREIGN EXCHANGE AVAILABLE IF OFFERS OF FINANCING BY
GOVERNMENTS OR SUPPLIERS NOT FORTHCOMING. AT THIS EARLY STAGE WE
NOT AWARE OF WHAT TYPE OF FINANCING COMPETITORS WILL OFFER. WE
BELIEVE EXIM BANK PARTICIPATION WOULD BE VERY HELPFUL TO US BID-
DERS BUT EVEN IF EXIM BANK SUPPORT NOT AVAILABLE, WE WOULD STILL
URGE US SUPPLIERS TO PURSUE BUSINESS.

10. COMMENT: THE KARACHI STEEL MILL PROJECT CONTINUES TO BE THE
LARGEST INDUSTRIAL PROJECT EVER UNDERTAKEN IN PAKISTAN. WHILE THE
MAIN SUPPLY OF EQUIPMENT AND TECHNICAL EXPERTISE WILL BE BY THE
SOVIET UNION, SIGNIFICANT OPPORTUNITIES EXIST FOR THIRD COUNTRY
SUPPLIERS OF MAJOR ITEMS AS DESCRIBED ABOVE. PSMC SOURCE ASSURES
US THAT PURCHASE PROCEDURES WILL ALLOW UNBIASED CONSIDERATION OF
ALL PROPOSALS WITH FINAL PURCHASE DECISIONS BASED STRICTLY ON
MERIT. SOURCE ALSO OBSERVED THAT IF ANY US SUPPLIERS SUSPECT
SKULDUGGERY ON PART OF SOFRESID, THEY ARE WELCOME TO BRING PROBLEM
TO PSMC ATTENTION DIRECTLY OR THROUGH US DIPLOMATIC CHANNELS. IN
VIEW OF FOREGOING WE BELIEVE COMMERCE SHOULD CONTINUE TO
ENCOURAGE AMERICAN FIRMS TO VIGOROUSLY PURSUE THESE MAJOR
POTENTIAL EXPORT OPPORTUNITIES.
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